

**#2012-232**  
*Terminates #2011-169*

**UNITED STATES OF AMERICA  
DEPARTMENT OF THE TREASURY  
COMPTROLLER OF THE CURRENCY**

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**In the Matter of:** )  
First Federal Bank ) OCC Docket No. AA-EC-12-114  
Lexington, Kentucky )

**CONSENT ORDER**

**WHEREAS**, the Comptroller of the Currency of the United States of America (“Comptroller” or “OCC”), through his duly authorized representative, has supervisory authority over First Federal Bank, Lexington, Kentucky (“Bank”);

**WHEREAS**, 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 (“Stipulation and Consent”), dated October 18, 2012, that is accepted by the Comptroller, through his duly authorized representative; and

**WHEREAS**, by the Stipulation and Consent, which is incorporated by reference, the Bank has consented to the issuance of this Consent Order (“Order”) by the Comptroller;

**NOW, THEREFORE**, pursuant to the authority vested in him by the Federal Deposit Insurance Act, as amended, 12 U.S.C. § 1818, the Comptroller hereby orders the following:

**ARTICLE I**

**COMPLIANCE COMMITTEE**

(1) No later than November 19, 2012, the Board shall appoint a Compliance Committee consisting of at least three (3) directors, of which a majority shall not consist of employees or controlling shareholders of the Bank or any of its affiliates (as the term “affiliate is defined in 12 U.S.C. § 371c(b)(1)), or family members of any such person. Upon appointment,

the names of the members of the Compliance Committee and, in the event of a change of the membership, the name of any new member shall be submitted to the Director for Special Supervision (“Director”). The Compliance Committee shall be responsible for monitoring and coordinating the Bank’s adherence to the provisions of this Order.

(2) The Compliance Committee shall meet at least monthly and prepare a report as described in paragraph 3 below.

(3) Within fifteen (15) days of every calendar quarter end the Compliance Committee shall submit a written progress report to the Board setting forth in detail:

- (a) a description of the actions needed to achieve full compliance with each Article of this Order, Bank personnel responsible for implementing the corrective actions, and the time frames for completion;
- (b) actions taken to comply with each Article of this Order; and
- (c) the results and status of those actions.

(4) The Board shall forward a copy of the Compliance Committee’s report, with any additional comments by the Board, to the Director within 10 days of receiving such report.

## ARTICLE II

### STRATEGIC PLAN

(1) Within ninety (90) days of the date of this Consent Order, the Board shall prepare and forward to the Director for his review, pursuant to paragraph three (3) of this Article, a written Strategic Plan for the Bank that is acceptable to the Director, covering at least a two (2) year period. The Strategic Plan shall establish objectives for the Bank's overall risk profile, earnings performance, growth, balance sheet mix, off-balance sheet activities, liability structure,

capital and liquidity adequacy, together with strategies to achieve those objectives, and shall, at a minimum, include:

- (a) a mission statement that forms the framework for the establishment of strategic goals and objectives;
- (b) the strategic goals and objectives to be accomplished, including key financial indicators and risk tolerances;
- (c) an assessment of the Bank's strengths, weaknesses, opportunities, and threats that impact strategic goals and objectives;
- (d) an identification and prioritization of initiatives and opportunities, including timeframes that take into account the requirements of this Consent Order;
- (e) a description of the Bank's targeted market(s) and competitive factors in its identified target market(s) and a description of control systems to mitigate risks in the Bank's markets;
- (f) an assessment of the present and planned product lines (assets and liabilities) and the identification of appropriate risk management systems to identify, measure, monitor, and control risks within the product lines;
- (g) assigned responsibilities and accountability for the strategic planning process; and
- (h) a description of systems and metrics designed to monitor the Bank's progress in meeting the Strategic Plan's goals and objectives.

(2) If the Board's Strategic Plan under paragraph one (1) of this Article is primarily a proposed sale or merger of the Bank, the Strategic Plan shall, at a minimum, address the steps that will be taken and the associated timeline to ensure that within ninety (90) days after the

receipt of the Director's written determination of no supervisory objection to the written Strategic Plan, a definitive agreement for the sale or merger is executed.

(3) Prior to adoption by the Board, a copy of the Strategic Plan, and any subsequent amendments or revisions, shall be submitted to the Director for review and prior written determination of no supervisory objection. At the next Board meeting following receipt of the Director's written determination of no supervisory objection, the Board shall adopt and the Bank, subject to Board review and ongoing monitoring, shall immediately implement and thereafter ensure adherence to the Strategic Plan.

(4) The Bank may not initiate any action that deviates significantly from the Strategic Plan (that has received a no supervisory objection from the Director and that has been adopted by the Board) without a written determination of no supervisory objection from the Director. The Board must give the Director at least thirty (30) days advance written notice of its intent to deviate significantly from the Strategic Plan, along with an assessment of the impact of such change on the Bank's condition, including a profitability analysis and an evaluation of the adequacy of the Bank's organizational structure, staffing, management information systems, internal controls, and written policies and procedures to identify, measure, monitor, and control the risks associated with the change in the Strategic Plan. For the purposes of this Article, changes that may constitute a significant deviation from the Strategic Plan include, but are not limited to, a change in the Bank's marketing strategies, products and services, marketing partners, underwriting practices and standards, credit administration, account management, collection strategies or operations, fee structure or pricing, accounting processes and practices, or funding strategy, any of which, alone or in the aggregate, may have a material impact on the Bank's operations or financial performance; or any other changes in personnel, operations, or

external factors that may have a material impact on the Bank's operations or financial performance.

(5) At least quarterly, the Board shall prepare a written evaluation of the Bank's performance against the Strategic Plan and shall include a description of the actions the Board will require the Bank to take to address any shortcomings, which shall be documented in the Board meeting minutes. The Board shall forward a copy of these quarterly reports to the Director within ten (10) days of completion of its review.

(6) The Board shall review and update the Strategic Plan at least annually, no later than January 31 and more frequently if necessary or if requested by the Director in writing. Until the Strategic Plan required under this Article has been submitted by the Bank for the Director's review, has received a written determination of no supervisory objection from the Director, and is being implemented by the Bank, the Bank shall not significantly deviate from the products, services, asset composition and size, funding sources, structure, operations, policies, procedures, and markets of the Bank that existed before this Consent Order without first obtaining the Director's prior written determination of no supervisory objection to such significant deviation. Any request to the Director for prior written determination of no supervisory objection to a significant deviation must be submitted to the Director at least thirty (30) days in advance of the significant deviation, along with an assessment of the impact of such change on the Bank's condition, including a profitability analysis and an evaluation of the adequacy of the Bank's organizational structure, staffing, management information systems, internal controls, and written policies and procedures to identify, measure, monitor, and control the risks associated with the change.

## ARTICLE III

### CAPITAL PLAN AND HIGHER MINIMUMS

- (1) The bank shall achieve by December 31, 2012 and thereafter maintain the following minimum capital ratios (as defined in 12 C.F.R. Parts 165 and 167):
- (a) Total risk-based capital ratio equal to or greater than thirteen percent (13 %); and
  - (b) Tier 1 capital to adjusted total assets ratio (leverage ratio) equal to or greater than nine percent (9 %).
- (1) The requirement in this Order to meet and maintain a specific capital level means that the Bank may not be deemed to be “well capitalized” for purposes of 12 U.S.C. § 1831o and 12 C.F.R. Part 165, pursuant to 12 C.F.R. § 165.4(b)(1)(iv)<sup>1</sup>.
- (2) Within ninety (90) days of the date of this Consent Order, the Board shall develop and implement an effective internal capital planning process to assess the Bank’s capital adequacy in relation to its overall risks and to ensure maintenance of appropriate capital levels, which shall in no event be less than the requirements of paragraph one (1) of this Article. The capital planning process shall be consistent with OCC Bulletin 2012-16 (Guidance for Evaluating Capital Planning and Adequacy) (June 7, 2012), and shall ensure the integrity, objectivity, and consistency of the process through adequate governance. The Board shall document the initial capital planning process and thereafter review and document the capital planning process at least annually or more frequently if requested by the Director in writing.

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<sup>1</sup> The Bank may not solicit, accept, renew, or roll over any brokered deposit (as defined in 12 C.F.R. § 337.6(a)(2)) except in compliance with the applicable restrictions of 12 U.S.C. § 1831f and 12 C.F.R. § 337.6.

(4) Within ninety (90) days of the date of this Consent Order, the Board shall forward to the Director for his review, pursuant to paragraph six (6) of this Article, a written Capital Plan for the Bank, consistent with the Strategic Plan pursuant to Article II, covering at least a two (2) year period. The written Capital Plan shall, at a minimum:

- (a) include specific plans for the achievement and maintenance of adequate capital, which shall in no event be less than the requirements of paragraph one (1) of this Article;
- (b) identify and evaluate all material risks;
- (c) determine the Bank's capital needs in relation to material risks and strategic direction;
- (d) identify and establish a strategy to maintain capital adequacy and strengthen capital if necessary and establish a contingency or back-up capital plan commensurate with the Bank's overall risk and complexity;
- (e) include detailed quarterly financial projections; and
- (f) include specific plans detailing how the Bank will comply with restrictions or requirements set forth in this Consent Order that will have an impact on the Bank's capital.

(5) If the Bank's written Capital Plan is primarily a sale or merger of the Bank, the written Capital Plan shall address the steps that will be taken and the associated timeline to ensure that within ninety (90) days after the receipt of the Director's written determination of no supervisory objection to the written Capital Plan, a definitive agreement for the sale or merger is executed.

(6) The Bank may declare or pay a dividend or make a capital distribution only:

- (a) when the Bank is in compliance with its approved Capital Plan and would remain in compliance with its approved Capital Plan immediately following the declaration or payment of any dividend or capital distribution; and
- (b) following the approval of the Director, pursuant to 12 U.S.C. Part 163, Subpart E.

(7) Prior to adoption by the Board, a copy of the Bank's written Capital Plan shall be submitted to the Director for prior written determination of no supervisory objection. The Board shall review and update the Bank's written Capital Plan at least annually, no later than January 31, and more frequently if required by the Director in writing. Revisions to the Bank's written Capital Plan shall be submitted to the Director for a prior written determination of no supervisory objection. At the next Board meeting following receipt of the Director's written determination of no supervisory objection, the Board shall thereafter adopt and the Bank, subject to Board review and ongoing monitoring, shall immediately implement and thereafter ensure adherence to the written Capital Plan and any amendments or revisions thereto.

(8) At least monthly, the Board shall review financial reports and earnings analyses that evaluate the Bank's performance against the goals and objectives established in the written Capital Plan, as well as the Bank's written explanation of significant differences between the actual and projected balance sheet, income statement, and expense accounts, including descriptions of extraordinary and/or nonrecurring items. This review shall include a description of the actions the Board will require the Bank to take to address any deficiencies. At least quarterly, the Board shall prepare a written evaluation of the Bank's performance against the written Capital Plan, which shall include a description of the actions the Board will require the Bank to take to address any deficiencies. The Board's monthly reviews and preparation of the quarterly written evaluations shall be documented in the Board meeting minutes. The Board shall retain a copy of these monthly

reviews and Board meeting minutes and shall forward a copy of these quarterly written evaluations and Board meeting minutes to the Director within ten (10) days of completion of its quarterly written evaluations.

(9) If the Bank fails to maintain capital ratios required by paragraph one (1) of this Article or fails to implement an acceptable written Capital Plan to which the Director has provided a written no supervisory objection, then the Bank may, in the Director's sole discretion, be deemed undercapitalized for purposes of this Consent Order. The Bank shall take such corrective measures as the OCC may direct in writing from among the provisions applicable to undercapitalized depository institutions under 12 U.S.C. § 1831o(e) and 12 C.F.R. Part 165. For purposes of this requirement, an action "necessary to carry out the purpose of this section" under 12 U.S.C. § 1831o(e)(5) shall include restoration of the Bank's capital to the minimum ratios required by paragraph one (1) of this Article, and any other action deemed necessary by the OCC to address the Bank's capital deficiency or the safety and soundness of its operations.

## ARTICLE IV

### BOARD TO ENSURE COMPETENT MANAGEMENT

(1) Within ninety (90) days of the date of this Consent Order, the Board shall adopt and take the necessary steps to implement corporate governance and decision-making processes to correct the Bank's deficiencies in management, leadership, and Board oversight as described in the February 27, 2012 Report of Examination ("most recent ROE"). At a minimum, the Board shall ensure and document the following:

(a) executive officers are capable of performing present and anticipated duties, factoring in each officer's past actual performance, experience, and

qualifications, compared to their position description, duties and responsibilities, with particular emphasis on their proposed responsibilities to execute the Strategic Plan and correct the concerns raised in the most recent ROE;

- (b) clear lines of responsibility and authority for each member of senior management, including but not limited to, the Chairman of the Board, Chief Executive Officer (“CEO”), President, Chief Credit Officer (“CCO”), and Chief Financial Officer (“CFO”);
- (c) a management employment and succession program to promote the retention and continuity of capable management;
- (d) sufficient policies, processes, personnel, and control systems to effectively implement and adhere to all provisions of this Consent Order, and that Bank personnel have sufficient training and authority to execute their duties and responsibilities under this Consent Order;
- (e) a process to evaluate, at least annually, the Bank's overall internal operations, staffing, Board and management oversight and information systems, policies, procedures, and other risk management systems with time sensitive strategies to address any deficiencies;
- (f) a process exists to ensure that management appropriately responds to any audit or compliance or regulatory criticisms; and
- (g) that the Board receives and reviews sufficient Bank information from management (including scope, frequency, and content) on the operation of the Bank and compliance with this Consent Order to enable them to provide oversight and fulfill

their fiduciary duties and other responsibilities under law and as outlined in the OCC’s “The Directors Book” (October 2010) and “Duties and Responsibilities of Directors” (Section 501 of the *Comptroller’s Handbook*).

- (2) The Board shall perform and prepare an annual written performance appraisal for each Bank senior executive officer that evaluates performance according to the position’s description and responsibilities. Each annual written performance appraisal also must address the following as it applies to each senior executive officer:
- (a) compliance with objectives established by the Board;
  - (b) compliance with Board approved policies and procedures;
  - (c) compliance with Board approved strategic and capital plans;
  - (d) compliance with action plans to remedy issues raised in Reports of Examination or audit reports; and
  - (e) compliance with laws, regulations, and regulatory guidance.

- (3) The Board shall ensure that the Bank addresses any deficiencies identified pursuant to paragraph two (2) of this Article.

## ARTICLE V

### CONTINGENCY FUNDING PLAN

- (1) Within ninety (90) days of the date of this Consent Order the Board shall adopt a comprehensive Bank-specific Contingency Funding Plan consistent with regulations and guidance, including, but not limited to, 12 C.F.R. § 163.161(a)(2), the “Liquidity” booklet of the *Comptroller’s Handbook*, and the Federal Financial Institutions Examination Council’s

(“FFIEC”) “Interagency Policy Statement on Funding and Liquidity Risk Management” (March 22, 2010). The plan shall, among other things, include:

- (a) a statement of the Board’s strategy for maintaining adequate sources of stable funding, including access to internal and external funding sources, taking into account the Bank’s anticipated liquidity and funding needs;
- (b) an identification of and Board-established early warning liquidity triggers that would cause the Bank to implement and adhere to the Contingency Funding Plan;
- (c) an explicit quantification of the sources and uses of liquidity in stress scenarios corresponding to the early warning liquidity triggers;
- (d) detailed action plans to identify and obtain sources of liquidity to meet projected shortfalls;
- (e) an identification of responsible bank personnel to declare, manage, and resolve a liquidity crisis;
- (f) internal and external communication processes, including a process for reporting to the Board and disseminating relevant information;
- (g) a process of regular testing to ensure that the plan is operationally sound; and
- (h) a periodic review process to ensure that the plan considers changes in the Bank’s condition.

(2) Upon adoption, a copy of the Contingency Funding Plan, and any subsequent amendments or changes to the Contingency Funding Plan, shall be submitted to the Director for review.

## ARTICLE VI

### CREDIT AND COLLATERAL EXCEPTIONS

(1) The Bank shall obtain current and complete credit information on all loans lacking such information, including those listed in the most recent ROE (within ninety (90) days from the effective date of this Consent Order), in any subsequent ROE (within sixty (60) days from the issuance of such ROE), in any internal or external loan review (within sixty (60) days from the completion of such review), or in any listings of loans lacking such information provided to management by the OCC Examiners (within sixty (60) days from receipt of such listing). The Bank shall maintain a list of any credit exceptions that have not been corrected within the timeframe discussed above. This list shall include an explanation of the actions taken to correct the exception, the reasons why the exception has not yet been corrected, and a plan to correct the exception.

(2) The Bank shall ensure proper collateral documentation is maintained on all loans and correct each collateral exception listed in the most recent ROE (within ninety (90) days from the effective date of this Consent Order), in any subsequent ROE (within sixty (60) days from the issuance of such ROE), in any internal or external loan review (within sixty (60) days from the completion of such review), or in any listings of loans lacking such information provided to management by the OCC Examiners (within sixty (60) days from the receipt of such listing). The Bank shall maintain a list of any collateral exceptions that have not been corrected within the timeframe discussed above. This list shall include an explanation of the actions taken to correct the exception, the reasons why the exception has not been corrected, and a plan to correct the exception.

## ARTICLE VII

### CREDIT RISK RATING SYSTEM AND NONACCRUAL LOANS

(1) Effective immediately, the Board shall take the necessary steps to ensure that the risk associated with the Bank's loans is properly reflected and accounted for on the Bank's books and records. These steps shall include, at a minimum, a requirement that loan officers or other responsible staff conduct a review within ninety (90) days, and quarterly thereafter, of all credit relationships that in aggregate equal or exceed two hundred and fifty thousand dollars (\$250,000) to ensure that:

- (a) the Bank's loans and other assets are accurately and timely risk rated or charged off using a loan grading system that is based on current facts and existing repayment terms, and is consistent with regulatory definitions set forth in 12 C.F.R. § 160.160 and the "Rating Credit Risk" booklet of the *Comptroller's Handbook*;
- (b) the Bank's loans and other assets are placed on nonaccrual timely in accordance with the Call Report Instructions and the "Rating Credit Risk" booklet of the *Comptroller's Handbook*;
- (c) the Bank's loans and other assets are timely designated as Troubled Debt Restructurings ("TDRs") in accordance with the Call Report Instructions and consistent with Accounting Standards Codification ("ASC") 310-40 (formerly known as FASB Statement of Financial Accounting Standards No. 15) and Accounting Standards Update 2011-2;

- (d) the Bank's loans and other assets are timely and accurately designated as impaired, the impairment is timely measured, and documentation of impairment tests is maintained, consistent with ASC 310-10 (formerly known as FASB Statement of Financial Accounting Standards No. 114); and
- (e) nonaccrual and TDR loans are reported to the board monthly.

## ARTICLE VIII

### ANNUAL CREDIT REVIEWS

(1) Within sixty (60) days of the date of this Consent Order the Board shall adopt and implement, and thereafter the Bank shall adhere to, an annual credit review program for commercial credit relationships with balances equal to or exceeding two hundred and fifty thousand dollars (\$250,000). The annual credit review shall document at a minimum:

- (a) the specific reason or purpose of the loan;
- (b) the expected source(s) of repayment;
- (c) past repayment performance;
- (d) terms and covenants related to each loan;
- (e) an analysis of current and complete credit information, including a global cash flow analysis of the guarantor's repayment ability, where repayment is dependent in whole or in part on the guarantor;
- (f) an analysis of current collateral coverage and documentation of the Bank's lien position; and

- (g) the assigned credit risk rating, including, if applicable, accrual designation and the amount of any impairment reserve.

## ARTICLE IX

### PROBLEM ASSET MANAGEMENT

- (1) The Bank shall take immediate and continuing action to protect its interests in those assets criticized as “doubtful,” “substandard,” or “special mention” in the most recent ROE, in any subsequent ROE, by internal or external loan review, or in any list provided to management by examiners.
- (2) Within sixty (60) days of the date of this Consent Order the Board shall adopt and the bank (subject to Board review and ongoing monitoring) shall implement and thereafter ensure adherence to a written program designed to reduce the level of the Bank’s criticized assets. The program shall include, but not be limited to, the following:
- (a) reporting of classified asset levels by type to the Board or a designated committee thereof every month;
  - (b) reporting of special mention asset levels by type to the Board or a designated committee thereof every month; and
  - (c) developing strategies for reducing levels of classified and special mention assets by asset type.
- (3) The Board’s program developed in accordance with Paragraph 2 of this Article shall include developing individual workout plans designed to eliminate the basis of criticism and protect the bank’s interest, for all criticized assets, credit relationships or parcels of other real estate owned (“OREO”) regardless of carrying value. For all individual workout plans with

a carrying value of two hundred and fifty thousand dollars (\$250,000) or more, the Board is required to review each individual workout plan, at least quarterly. Each individual workout plan shall cover an entire credit relationship and shall include, at a minimum, analysis and documentation of the following, as applicable:

- (a) origination date, original and current balance, stated purpose of the loan, name(s) of the borrower(s), name(s) of the guarantor(s), , and the original expected sources of repayment;
- (b) identification of the individual(s) responsible for managing the criticized asset and completing the requirements of the written plan and the originating and current loan officers, if different;
- (c) identification of the current expected primary and secondary sources of repayment and an analysis of their adequacy;
- (d) the number of extensions or modifications granted for the loan, including a determination of whether the loan is considered a Troubled Debt Restructuring;
- (e) a description of the basis for criticism, current risk rating, charge-off history, and past-due and accrual status, with supporting comments for each;
- (f) the current value of supporting collateral, results of inspections, and the Bank' current lien position on such collateral, and all other documentation necessary to support the collateral valuation;

- (g) an analysis of current and satisfactory credit information, including analysis of borrower's and guarantor's global cash flow, and of business cash flow where loans are to be repaid from operations;
- (h) the proposed action(s) to eliminate the basis of criticism, a discussion of changes since the prior report, and the time frame for eliminating said basis of criticism, including if appropriate an exit strategy;
- (i) trigger dates for positive borrower actions or for loan officers or other responsible staff to reassess the strategy, enact collection plans, and make appropriate downgrades or place the loan on nonaccrual;
- (j) a determination whether the loan should be placed on nonaccrual and/or is impaired, and the amount of any impairment, consistent with ASC 310-10 and Article VII of this Order;
- (k) a historical record of the action(s) taken to protect the Bank's interests in the asset that, at a minimum, includes the date of the action, the identity of the party who took the action(s), and the rationale for any departure from approved proposed action(s); and
- (l) include for loans made for the purpose of constructing upon or developing real estate:
  - (i) project development status, including the percentage complete and the estimated cost to complete unfinished projects;
  - (ii) a comparison of construction and development costs to the budgeted amount;
  - (iii) a comparison of sales activity to the original sales projections;

- (iv) amount of initial interest reserve and the amount of any subsequent additions to the reserve; and
- (v) other significant information relating to the project.

(4) The Bank shall ensure that each parcel of OREO is managed in accordance with 12 C.F.R. § 560.172. At a minimum, workout plans for OREO shall:

- (a) identify the Bank officer(s) responsible for managing and authorizing transactions relating to the OREO properties;
  - (b) contain an analysis of each OREO property that compares the cost to carry against the financial benefits of near term sale;
  - (c) detail the marketing strategies for each parcel;
  - (d) identify targeted time frames for disposing each parcel of OREO;
  - (e) establish procedures to require periodic market valuations of each property, and the methodology to be used; and
  - (f) provide for reports to the Board on the status of OREO properties on at least a quarterly basis.
  - (g) Upon adoption by the Board, copies of the individual workout plans shall be forwarded to the Director.
- (5) The Board shall conduct a review, on at least a quarterly basis, to:
- (a) determine management's adherence to each individual workout or action plan;
  - (b) evaluate the effectiveness of each individual workout or action plan; and
  - (c) approve revisions to the plans or alternative actions.
- (6) A copy of each quarterly review shall be forwarded to the Director.

(7) Effective immediately, the Bank may not extend credit, directly or indirectly, including renewals, extensions, capitalization of accrued interest, or overdrafts to a borrower whose loans or other extensions of credit are criticized internally, in the ROE, in any subsequent ROE, in any internal or external loan review, or in any list provided to management by OCC Examiners, and whose aggregate loans or other extensions of credit equal or exceed two hundred fifty thousand dollars (\$250,000), unless and until the Board, or a designated committee thereof, finds and documents in writing that each of the following conditions is met:

- (a) the conditions in Paragraph 4 of Article VI, "Credit and Collateral Exceptions," are satisfied;
- (b) the extension of additional credit is necessary to promote the best interests of the Bank;
- (c) the Bank has performed a written credit and collateral analysis as required by Paragraph 3(f) through (h) of this Article, and if necessary, the proposed action referred to in Paragraph 3(k) of this Article is revised, as appropriate; and
- (d) the Board's formal plan to collect or strengthen the criticized asset will not be compromised by the extension of credit.

(8) A copy of the findings and approval of the Board or designated committee shall be maintained in the credit file of the affected borrower.

(9) Within ninety (90) days of the date of this Consent Order the Board shall ensure that a program is in place to hold loan officers and other responsible employees accountable for adherence to policies and procedures adopted pursuant to Paragraph 3 of this Article, including,

but not limited to, consideration of such adherence (or failure to adhere) in periodic performance reviews and compensation decisions.

## ARTICLE X

### CONCENTRATION RISK MANAGEMENT

(1) Within ninety (90) days of the date of this Consent Order the Board shall develop a written concentration risk management program for identifying, monitoring, and controlling risks associated with concentrations of credit and ensure that it addresses all concentrations of credit-related corrective actions in the most recent ROE and is consistent with the guidance set forth in OCC Bulletin 2006-46 (December 6, 2006) and the “Concentrations of Credit” booklet of the *Comptrollers’ Handbook* (December 13, 2011). The program shall include, but is not limited to, the following:

- (a) policy guidelines addressing the level and nature of exposures acceptable to the institution and setting concentration limits, including limits on commitments to individual borrowers and appropriate sub-limits;
- (b) procedures to identify and quantify the nature and level of risk presented by concentrations, including review of changes in conditions in the Bank’s markets;
- (c) procedures to periodically review and revise, as appropriate, risk exposure limits and sub-limits to conform to any changes in the Bank’s strategies and to respond to changes in market conditions;
- (d) quarterly portfolio-level stress tests or sensitivity analysis to quantify the impact of changing economic conditions on asset quality, earnings, and capital;

- (e) appropriate strategies for managing concentration levels, including a contingency plan to reduce or mitigate concentrations deemed imprudent for the Bank's earnings, capital, or in the event of adverse market conditions; and
- (f) quarterly reports to the Board, which shall at a minimum include the following:
  - (i) a summary of concentration levels, by type and subtype;
  - (ii) a summary of the Bank's market analysis;
  - (iii) discussion of recommended strategies when concentrations approach or exceed Board-approved limits; and
  - (iv) a summary of changes in risk levels by concentration type and subtype, with discussion of recommended changes in credit administration procedures (i.e., underwriting practices, risk rating, monitoring, training).

(2) Upon completion, the Board shall thereafter adopt and the Bank, subject to Board review and ongoing monitoring, shall immediately implement and thereafter ensure adherence to the written concentration management program.

(3) The Board shall forward a copy of the program required in paragraph one (1) of this Article, and any concentration reports, studies, or analysis to the Director within ten (10) days of completion.

## ARTICLE XI

### ALLOWANCE FOR LOAN AND LEASE LOSSES

(1) Within ninety (90) days of the date of this Consent Order the Board shall maintain and adhere to a written policy and procedures for the maintenance of an adequate Allowance for Loan and Lease Losses ("ALLL"). The policy and procedures shall be consistent with 12 C.F.R. § 160.160 and the guidance on maintaining a proper ALLL found in the Interagency Policy

Statement on the ALLL contained in OCC Bulletins 2001-37 (July 20, 2001) and 2006-47 (December 13, 2006) and with "Allowance for Loan and Lease Losses," Booklet A-ALLL of the *Comptroller's Handbook* (June 19, 1996, May 1998), and shall incorporate the following:

- (a) internal loan risk ratings;
- (b) results of the Bank's independent loan review;
- (c) criteria for determining which loans will be reviewed under ASC Topic 310, how impairment will be determined, and procedures to ensure that the analysis of loans complies with ASC 310 requirements;
- (d) criteria for determining loan pools under ASC 450 and an analysis of those loan pools;
- (e) recognition of non-accrual loans in conformance with generally accepted accounting principles and regulatory guidance;
- (f) loan loss experience;
- (g) trends of delinquent and non-accrual loans;
- (h) concentrations of credit in the Bank; and
- (i) present and projected economic and market conditions.

(2) The policy and procedures shall provide for a review of the ALLL by the Board at least once each calendar quarter. Any deficiency in the ALLL shall be remedied in the quarter it is discovered, prior to filing the Consolidated Reports of Condition and Income, by additional provisions from earnings. Written documentation of the factors considered and conclusions reached by the Board in determining the adequacy of the ALLL shall be maintained.

## ARTICLE XII

### INFORMATION TECHNOLOGY

(1) Within ninety (90) days of the date of this Consent Order the Board shall develop and implement, and thereafter the Bank shall adhere to, a comprehensive, written information security program to ensure the safety and soundness of its operations and to support the Bank's efforts to comply with 12 C.F.R. Part 170, Appendix B, "Interagency Guidelines Establishing Information Security Standards - Development and Implementation of Customer Information Security Program." The information security program shall include administrative, technical, and physical safeguards to protect the security, confidentiality, and integrity of customer information. The information security program shall be consistent with the security process described in the "Information Security" booklet of the FFIEC Information Technology Examination Handbook. At a minimum, the information security program shall include:

- (a) a comprehensive, independent audit of the bank's information technology systems and controls;
- (b) a corporate-wide assessment of the risks to its customer information or customer information systems and a written report evidencing such assessment. The assessment shall include:
  - (i) the identification of reasonably foreseeable internal and external threats that could result in unauthorized disclosure, misuse, alteration, or destruction of customer information or customer information systems;

- (ii) an assessment of the likelihood and potential damage from these threats, taking into consideration the sensitivity of customer information; and
  - (iii) an assessment of the sufficiency of policies, procedures, customer information systems, and other arrangements in place to control risks;
- (c) a process to monitor and control the identified risks, commensurate with the sensitivity of the information as well as the complexity and scope of bank activities; and
- (d) a process that provides for regular testing of key controls, systems, and procedures of its information security program. The frequency and nature of such tests shall be consistent with the risk assessment and shall be conducted and reviewed by independent third parties or staff independent of those who develop or maintain the information security program.

(2) Within ninety (90) days, the Board shall develop and implement, and thereafter the Bank shall adhere to, a written program to oversee and manage risks associated with outsourcing technology services to third-party servicers, including technology service providers and vendors. This third-party management program shall be consistent with OCC Bulletin 2001-47, “Third-Party Relationships” (November 1, 2001), and the FFIEC’s guidance, “Risk Management of Outsourcing Technology Services” (November 28, 2000).

## ARTICLE XIII

### INTERNAL AUDIT

(1) Within ninety (90) days of the date of this Consent Order the Board shall adopt an independent internal audit program consistent with the guidance in “Section 355” of the Office of Thrift Supervision’s Examination Handbook and sufficient to:

- (a) detect irregularities and weak practices in all of the Bank’s operations;
- (b) determine the Bank’s level of compliance with all applicable laws, rules and regulations;
- (c) assess and report the effectiveness of policies, procedures, controls, and management oversight relating to accounting and financial reporting;
- (d) evaluate the Bank’s adherence to established policies and procedures, with particular emphasis directed to the Bank’s adherence to its loan policies concerning underwriting standards and problem loan identification and classification;
- (e) adequately cover all areas; and
- (f) establish an annual audit plan using a risk-based approach sufficient to achieve these objectives.

(2) As part of this audit program, the Board shall evaluate the audit reports of any party providing services to the Bank, and shall assess the impact on the Bank of any audit deficiencies cited in such reports.

(3) The Board shall ensure that the audit function is supported by an adequately staffed department or outside firm, with respect to both the experience level and number of the individuals employed.

(4) The Board shall ensure that the audit program is independent. The persons responsible for implementing the internal audit program described above shall report directly to the Board or a committee thereof, which shall have the sole power to direct their activities. All reports prepared by the audit staff shall be filed directly with the Board and not through any intervening party.

(5) All audit reports shall be in writing. The Board shall ensure that immediate actions are undertaken to remedy deficiencies cited in audit reports, and that the Bank maintains a written record describing those actions.

(6) The audit staff shall have access to any records necessary for the proper conduct of its activities. Bank examiners shall have access to all reports and work papers of the audit staff and any other parties working on its behalf.

(7) Upon adoption, a copy of the internal audit program shall be promptly submitted to the Director.

## ARTICLE XIV

### THIRD-PARTY CONTRACTS INVOLVING SALE, MERGER, OR RECAPITALIZATION OF THE BANK

(1) Effective immediately, the Bank shall not enter into any contract with a third party to assist in the sale, merger, or recapitalization of the Bank that requires the payment of anything other than expenses prior to such sale, merger, or recapitalization, or that requires the Bank to pay, directly or indirectly, the cost of performing due diligence, or other services related to the transaction, unless the Bank first receives the Director's written determination of no supervisory objection.

(2) Any request for the Director's written determination of no supervisory objection shall include:

- (a) a description of the due diligence credit review, fairness opinion, or any other services to be performed by the third party, including a copy of the proposed contract or engagement;
- (b) a description of the Bank's due diligence process for agreeing to the services to be performed by a potential purchaser or merger partner; and
- (c) a determination by the Board that:
  - (i) the activities to be performed by the third party as part of the sale or merger requirements are fair and reasonable to the Bank;
  - (ii) the parties are able to perform under the contract or commitment;
  - (iii) the fees the Bank is required to pay to the third party are reasonable for the services provided; and
  - (iv) the contract is in the best interests of the Bank.

(3) Following any written determination of no supervisory objection by the Director, the Board shall regularly monitor the contractor or service provider's performance to ensure that the contractor or service provider is complying with the written contract or engagement. The Board shall immediately take appropriate action if the contractor or service provider is not complying with the written contract or engagement and shall maintain documentation of any such actions.

## ARTICLE XV

### VIOLATIONS OF LAW

(1) The Board shall require and the Bank shall immediately take all necessary steps to correct each violation of law, rule, or regulation cited in the most recent ROE, any subsequent ROE, or brought to the Board's or Bank's attention in writing by management, regulators, auditors, loan review, or other compliance efforts. Within ninety (90) days after the violation is cited or brought to the Board's or appropriate committee's attention, the Bank shall provide to the Board a list of any violations that have not been corrected. This list shall include an explanation of the actions taken to correct the violation, the reasons why the violation has not yet been corrected, and a plan to correct the violation by a specified time.

(2) The monthly progress reports required by Article I of this Consent Order shall include the date and manner in which each correction has been effected during that reporting period.

(3) Within ninety (90) days, the Board shall adopt and the Bank, subject to Board review and ongoing monitoring, shall implement and thereafter ensure adherence to:

- (a) specific procedures to prevent future violations as cited in the most recent ROE; and
- (b) general procedures addressing compliance management that incorporate internal control systems and education of employees regarding laws, rules, and regulations applicable to their areas of responsibility.

(4) Upon adoption, a copy of these procedures shall be forwarded to the Director.

## ARTICLE XVI

### OTHER PROVISIONS

(1) Although the Bank is by this Consent Order required to submit certain proposed actions and programs for the review or prior written determination of no supervisory objection of the Director, the Board has the ultimate responsibility for proper and sound management of the Bank and the completeness and accuracy of the Bank's books and records.

(2) It is expressly and clearly understood that if, at any time, the Comptroller deems it appropriate in fulfilling the responsibilities placed upon it by the several laws of the United States of America to undertake any action affecting the Bank, nothing in this Order shall in any way inhibit, estop, bar or otherwise prevent the Comptroller from so doing.

(3) The provisions of this Consent Order are effective upon issuance by the Comptroller, through his authorized representative whose hand appears below, and shall remain effective and enforceable, except to the extent that, and until such time as, any provisions of this Consent Order shall have been amended, suspended, waived, or terminated in writing by the Comptroller, through his authorized representative.

(4) Except as otherwise expressly provided herein, any time limitations imposed by this Consent Order shall begin to run from the effective date of this Consent Order.

(5) If the Bank requires a waiver or suspension of any provision or an extension of any timeframe within this Consent Order, the Board shall submit a written request to the Director asking for relief. Any written requests submitted pursuant to this Article shall include a statement setting forth in detail, with relevant supporting documentation, the special facts and circumstances that support the waiver or suspension of any provision or an extension of a timeframe within this Consent Order.

(6) The Director's decision concerning a request submitted pursuant to paragraph five (5) of this Article is final and not subject to further review.

(7) In each instance in this Consent Order in which the Board or a Board committee is required to ensure adherence to and undertake to perform certain obligations of the Bank, it is intended to mean that the Board shall:

- (a) authorize and adopt such actions on behalf of the Bank as may be necessary for the Bank to perform its obligations and undertakings under the terms of this Consent Order;
- (b) require the timely reporting by Bank management of such actions directed by the Board to be taken under the terms of this Consent Order;
- (c) follow-up on any non-compliance with such actions in a timely and appropriate manner; and
- (d) require corrective action be taken in a timely manner of any non-compliance with such actions.

(8) This Consent Order is intended to be, and shall be construed to be, a final order issued pursuant to 12 U.S.C. § 1818(b), and expressly does not form, and may not be construed to form, a contract binding on the Comptroller or the United States.

(9) The Comptroller issued a Cease and Desist Order to the Bank on November 14, 2011, Enforcement Action No. 2011-169. This Order replaces Enforcement Action No. 2011-169 in its entirety and, therefore, Enforcement Action No. 2011-169 is hereby terminated. However, no provision in this Order shall inhibit, estop, bar, or otherwise prevent the Comptroller from taking an enforcement action against the Bank or its affiliated parties on the basis of failure to comply with Enforcement Action No. 2011-169.

(10) All reports or plans which the Bank or Board has agreed to submit to the Director pursuant to this Consent Order shall be forwarded, by overnight mail or via email, to the following:

Director for Special Supervision  
Comptroller of the Currency  
250 E Street, S.W.  
Mail Stop 2-7  
Washington, D.C. 20219

*with a copy to:*  
Louisville Field Office  
Comptroller of the Currency  
10200 Forest Green Blvd Suite 501  
Louisville, KY 40223

(11) The terms of this Consent Order, including this paragraph, are not subject to amendment or modification by any extraneous expression, prior agreements or prior arrangements between the parties, whether oral or written.

IT IS SO ORDERED, this 18th day of October, 2012.

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/s/  
Henry Fleming  
Director for Special Supervision

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10/18/12  
Date

**UNITED STATES OF AMERICA  
DEPARTMENT OF THE TREASURY  
COMPTROLLER OF THE CURRENCY**

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**In the Matter of:** )  
First Federal Bank )      OCC Docket No. AA-EC-12-114  
Lexington, Kentucky )

**STIPULATION AND CONSENT TO THE ISSUANCE  
OF A CONSENT ORDER**

**WHEREAS**, the Comptroller of the Currency of the United States of America (“Comptroller” or “OCC”) intends to initiate cease and desist proceedings against First Federal Bank, Lexington, Kentucky (“Bank”) pursuant to 12 U.S.C. § 1818(b), through the issuance of a Notice of Charges, for unsafe or unsound banking practices and violations of law and regulation, including those relating to strategic and capital planning, Board and management supervision, liquidity risk management, management of credit risk and problem assets, internal controls, and information security, and for failure to comply with the cease and desist order dated November 14, 2011;

**WHEREAS**, the Bank, in the interest of compliance and cooperation, and without admitting or denying any wrongdoing, consents to the issuance of a Consent Order, dated October 18, 2012 (“Order”) by executing this Stipulation and Consent to the Issuance of a Consent Order;

**NOW THEREFORE**, in consideration of the above premises, the Comptroller, through his authorized representative, and the Bank, through its duly elected and acting Board of Directors, hereby stipulate and agree to the following:

## ARTICLE I

### JURISDICTION

(1) The Bank is a federal savings association examined by the Comptroller pursuant to the Home Owners' Loan Act of 1933, as amended, 12 U.S.C. § 1461 *et seq.*

(2) The Bank is an "insured depository institution" within the meaning of 12 U.S.C. §§ 1813(c) and 1818(b)(1).

(3) The Comptroller is "the appropriate Federal banking agency" regarding the Bank, pursuant to 12 U.S.C. §§ 1813(q) and 1818(b).

## ARTICLE II

### AGREEMENT

(1) The Bank hereby consents and agrees to the issuance of the Order by the Comptroller.

(2) The Bank further agrees that said Order shall be deemed an "order issued with the consent of the depository institution" as defined in 12 U.S.C. § 1818(h)(2), and consents and agrees that said Order shall become effective upon its issuance and shall be fully enforceable by the Comptroller under the provisions of 12 U.S.C. § 1818.

(3) Notwithstanding the absence of mutuality of obligation, or of consideration, or of a contract, the Comptroller may enforce any of the commitments or obligations herein undertaken by the Bank under his supervisory powers, including 12 U.S.C. § 1818, and not as a matter of contract law. The Bank expressly acknowledges that neither the Bank nor the Comptroller has any intention to enter into a contract.

(4) The Bank also expressly acknowledges that no officer or employee of the OCC has statutory or other authority to bind the United States, the U.S. Treasury Department, the Comptroller, or any other Federal bank regulatory agency or entity, or any officer or employee of any of those entities to a contract affecting the Comptroller's exercise of his supervisory responsibilities.

## ARTICLE III

### WAIVERS

- (1) The Bank, by signing this Stipulation and Consent, hereby waives:
- (a) the issuance of a Notice of Charges pursuant to 12 U.S.C. § 1818(b);
  - (b) any and all procedural rights available in connection with the issuance of the Order;
  - (c) all rights to seek any type of administrative or judicial review of the Order;
  - (d) all rights to a hearing and a final agency decision pursuant to 12 U.S.C. § 1818(i), 12 C.F.R. Part 109;
  - (e) any and all rights to challenge or contest the validity of the Order; and
  - (f) any and all claims for fees, costs, or expenses against the Comptroller, or any of his agents or employees, related in any way to this enforcement matter or this Order, whether arising under common law or the terms of any statute, including but not limited to the Equal Access to Justice Act, 5 U.S.C. § 504 and 28 U.S.C. § 2412.

## ARTICLE IV

### OTHER PROVISIONS

(1) The Bank agrees that the provisions of this Stipulation and Consent shall not inhibit, estop, bar, or otherwise prevent the Comptroller from taking any other action affecting the Bank if, at any time, it deems it appropriate to do so to fulfill the responsibilities placed upon him by the several laws of the United States of America.

**IN TESTIMONY WHEREOF**, the undersigned, authorized by the Comptroller as his representative, has hereunto set his hand on behalf of the Comptroller.

/s/

Henry Fleming  
Director for Special Supervision

10/18/12

Date

**IN TESTIMONY WHEREOF**, the undersigned, as the duly elected and acting Board of Directors of the Bank, have hereunto set their hands on behalf of the Bank.

/s/ Kenton L. Ball	10/18/12 Date
/s/ Anne L. Kilcoyne	10/18/12 Date
/s/ Ed Maggard	10/18/12 Date
/s/ William H. McCann, Sr.	10/18/12 Date
/s/ William H. McCann, Jr.	10/18/12 Date
/s/ Carroll A. Yates	10/18/12 Date